



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lee Wilcox

SUBJECT: SB 5 Local-State Sustainable
Investment Incentive Program

DATE: March 22, 2019

Approved

Date

3-25-19

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

Per the direction of the Rules and Open Government Committee on March 13, 2019, the Administration is providing additional information on SB 5 (Beall and Maguire) on the Local-State Sustainable Investment Incentive Program. The recent amendments to SB 5 meet the direction of the Rules and Open Government Committee. Therefore, the Administration recommends adopting a support position on the bill.

ANALYSIS

The Rules and Open Government Committee asked the Administration to answer the following questions on SB 5:

1. *Why does SB 5 not direct the State to return Education Revenue Augmentation Funds (ERAF) property taxes back to local government?*

In FY 17-18, the total statewide ERAF program was \$9.6 billion. Through SB 5, the State would gradually increase the funds it returns to local government by backfilling school districts \$200 million to \$2 billion annually, and redirect the funding to locally-proposed and state-approved projects and plans. As an on-going program, SB 5 would provide a relatively stable source of State funding that is not subject to annual appropriations requests. Additionally, SB 5's intent is to allow local governments to bond against a multi-year state commitment, to provide more funding certainty to local governments.

2. *What amendments is Senator Beall proposing for SB 5?*

Senator Beall amended SB 5 on March 18, 2019. The amendments include language to hold excess ERAF harmless, which addresses concerns raised by the Administration on the impact of SB 5 on City General Fund revenue. The amendments also include a

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requirement that counties hold SB 5 funds, additional affordable housing provisions including requiring 30 percent inclusionary zoning for developments, and additional protections to hold school districts harmless.

COORDINATION

The City Manager's Office coordinated this memorandum with the Budget Office and Finance and Housing Departments.

/s/

LEE WILCOX

Chief of Staff, City Manager's Office

For questions, please contact Bena Chang, Director of Intergovernmental Relations, 408-975-3240.